Blue Ocean Strategy
Framework and Applications
Blue Ocean Strategy
Importance to Business

Create Uncontested Market Space
Invent and Capture New Demand
Customer Value + Low Cost
Blue Ocean Strategy

Importance to Business

Why Blue Ocean Strategy must be Considered

- Advances in technology
- Improved Productivity
- Greater manufacturing capacities
- Brand Similarity and price competition
- Price Wars and Shrinking Profit Margins
- Globalization effects

Background
Applications
Framework
Implementation
Considerations
Examples
Blue Ocean Strategy

**Core Principles**

1. **Grounded in Data**
   - 10 year study/150 strategic moves
   - 30 industries/100 years

2. **Pursues Differentiation + Low Cost**
   - “and-and” not “either-or”
   - Reduce competing factors/create new factors

3. **Creates Uncontested Market Space**
   - Make competition irrelevant
   - Look outside the boundaries

4. **Tools and Frameworks**
   - Underlying frameworks exist as a guide
   - Built on common strategic patterns of Blue Ocean Strategy
5. Provides Step-by-Step Process
   • Provides a stepped process for implementation
   • Gives management an alternative to traditional strategies

6. Maximizes Opportunity/Minimizes Risk
   • Mitigates risk
   • Increases odds of success

7. Builds Execution into Strategy
   • Ensures employee support
   • Process and tools are inclusive

8. Creates a Win-Win Outcome
   • Strategy aligns value, profit and people
   • Ensures acceptance, support, sustainability
**Difference between Blue Ocean Strategy and innovation**
(value innovation vs. innovation)

- Innovation: tech-driven, market pioneering, futuristic
- Value Innovation: align innovation with utility, price, cost position
Blue Ocean Strategy provides a framework to:

- Grow market share while minimizing risk
- Succeed in entrepreneurship

**Raise**

Which factors should be raised *well above* the industry’s standard?

**Eliminate**

Which factors that the industry has long competed on should be eliminated?

**Create**

Which factors should be created that the industry has never offered?

**Reduce**

Which factors should be reduced *well below* the industry’s standard?
Traditional Competitive Strategies:
- Cost Leadership (Ex: Costco)
- Differentiation (Ex: BMW)
- Focus Strategy (Ex: LinkedIn)

Traditional Competitive Strategy vs Blue Ocean Strategy
- Competitive Advantage - Porter’s Five Forces
- Blue Ocean Strategy is a:
  - Value Innovation Strategy – competes in an uncontested market space
  - “Combination Strategy”: pursue differentiation while controlling costs.
    - Achieved via the delivery of features that have a highest marginal benefit to customer needs
Change the mass by transforming the extremes

The Extremes: the people, acts, and activities that exercise a disproportionate influence on performance

The Advantage? Tipping point leaders are able to change the core fast and at low cost to execute their new strategy.

The Key: Identify and leverage factors with disproportionate influence on the organization to effect change
Blue Ocean Strategy Execution

Hurdles

- The Cognitive Hurdle
- The Resource Hurdle
- The Motivational Hurdle
- The Political Hurdle
**What is Diversification?**
- Diversification is a corporate level strategy used to create value.

**Categorized into:**
- Related diversification (ex: Dairy farm acquiring a cheese factory)
- Unrelated diversification (ex: Dairy farm acquiring a coffee plantation)

**Blue Ocean Strategy**
- Proper execution of a Blue Ocean Strategy requires alignment of 3 propositions/components:
  - People – Must motivate employees to execute strategy
  - Value – Must develop an offering attractive to buyers
  - Profit – Must enable company to make a profit
Step 1: Examine the industry and its customers

- **What was working:**
  * Raw technology was already available (CPU, screens etc.)

- **What was not working:**
  * Software were not user-friendly
  * Poor cellphone web-browsing capabilities
  * Cellphones lacked useful third-party Apps

Step 2: Decide which features to add and eliminate

- **Add Underserved Features:**
  * Software ease of use
  * Hardware quality and aesthetics
  * Availability of third-party Apps

- **Eliminate Unnecessary Features:**
  * Excessive customizability of hardware and software
  * A high megapixel camera
  * Lots of different cellphone models

Step 3: Results

- Apple became a leader in the smartphone industry within 5 years
Examples:
Wine Industry (2000)

Step 1: Examine the industry and its customers
- What was working:
  - Wine was perceived as a refined, high-end drink
- What was not working:
  - Industry consisted of either premium or budget wines
  - To younger, casual drinkers, wine seemed intimidating and old-fashioned
  - Younger and casual drinkers were a disengaged market

Step 2: Decide which features to add and eliminate
- Add Underserved Features:
  - Simple taste
  - Affordable prices
  - Marketing focused on fun, adventure, and simplicity
- Eliminate Unnecessary Features:
  - Prestige marketing
  - Complex taste
  - High prices

Step 3: Results
- In 3 years (2003), Yellow Tail became US’ #1 selling wine
- A reinvention of wine-drinking as trendy, modern, and fun

Yellow Tail’s features offering was intentionally different from the rest of the wine industry
Step 1: Identifying the problem / issue

- **What was working:**
  - Several Non Profit Organizations already working in India for *Eradicating Curable Blindness*.

- **What was not working:**
  - No organization in the US working on eradicating Curable Blindness for India
  - Indian organizations working on multiple issues (Poverty Alleviation, Education, Healthcare)

Step 1a: Formulating a strategy

- **Focus:**
  - To reach out to the India’s rural poor and provide quality eye care free of cost to the needy by building operationally self-sufficient super specialty eye care hospitals across India.

- **Divergence:**
  - Responsibility, Honesty and Commitment towards the donors, people they serve and fellow volunteers

- **Compelling Tagline:**
  - Their vision is to eradicate curable blindness in India by the year 2020. “*Vision 20/20 by the year 2020*”

Step 2: Decide which features to add and eliminate

- **Add Underserved Features:**
  - Identify untapped donor groups.
  - Active Donor Engagement
  - Innovative Fundraising

- **Eliminate Unnecessary Features:**
  - Keep costs to a minimum
  - Keep Volunteer morale high
  - Maintain Committed Partnership

Step 3: Results

- **Sankara became a leading Non-profit Organization by 2007**
  - Performing 500 free eye surgeries / day
  - Raising $3.5 Million / year with Over 100,000 donors
To implement a Blue Ocean Strategy:

* You don’t need to be Steve Jobs or Elon Musk

* But, you do need to:
  * **Examine** the industry to identify the customer needs that it currently serves and doesn’t serve
  * **Study** the industry’s customers and potential customers for what they really need
  * **Structure** your own offering to focus on customer needs that have yet to be addressed, while minimizing features that have been overserved.